

THE BRAEMORE GROUP

Financial Highlights

| Year ended | December 28, 1974 | December 29, 1973 (Restated) |
|----------------------------|-------------------|---------------------------------|
| Sales | \$ 35,811,000 | \$ 9,133,000 |
| Net earnings | \$ 902,000 | \$ 469,000 |
| Earnings per share | 58¢ | 71¢ |
| Working capital | \$ 6,398,000 | \$ 1,968,000 |
| Shareholders' equity | \$ 9,183,000 | \$ 3,110,000 |
| Shares outstanding | 1,565,800 | 657,900 |

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Braemore

INTERIM REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 1974

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HOUSE OF BRAEMORE FURNITURE LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

The sharp increase in sales and earnings for the half year reflect the continued high demand for furniture and include the operations acquired effective January 1st.

Sales amounted to \$18,530,000 as against \$4,706,000 in 1973 and net earnings increased to \$998,000 from \$282,000 a year ago. On a fully diluted basis earnings a share increased to 64 cents from 43 cents.

There is a strong backlog of orders for each major product line, upholstered, wooden furniture and accessories.

HARVEY K. WEINER
President
August 16, 1974

| (Unaudited) | FOR THE SIX MONTHS ENDED | |
|---|--------------------------|------------------------|
| | JUNE 30 | 1973 |
| | 1974 | (Thousands of Dollars) |
| Sales | <u>\$18,530</u> | <u>\$4,706</u> |
| Earnings from operations before depreciation and interest | 2,258 | 674 |
| Depreciation | <u>158</u> | <u>43</u> |
| Earnings before interest | 2,100 | 631 |
| Interest | <u>380</u> | <u>43</u> |
| Income taxes | <u>1,720</u> | <u>588</u> |
| | <u>722</u> | <u>306</u> |
| Net earnings for the period | <u>998</u> | <u>282</u> |
| Number of shares.....* | 1,565,800 | 650,000 |
| Earnings per share | \$ 0.64 | \$ 0.43 |

*Includes 75,000 shares in respect of convertible promissory notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| FOR THE SIX MONTHS ENDED | |
|--------------------------|--------------|
| JUNE 30, | 1974 |
| Source of Funds | \$ 000 |
| Net Earnings | 998 |
| Depreciation | 158 |
| Deferred Taxes..... | 290 |
| Long Term Debt | <u>43</u> |
| | <u>1,489</u> |

| | |
|---------------------------------|----------------|
| Issued to finance acquisitions: | |
| 832,900 Common Shares | 4,798 |
| Promissory Notes | 1,583 |
| Convertible Notes .. | <u>375</u> |
| | <u>6,756</u> |
| | <u>\$8,245</u> |

| | |
|------------------------|-----|
| Expenditure of Funds | |
| Fixed assets purchased | 238 |

| | |
|-------------------------------|----------------|
| Assets of Companies acquired: | |
| Working Capital | <u>2,014</u> |
| Fixed | 1,520 |
| Investments | 104 |
| Deferred Taxes Recoverable | 474 |
| Deferred charges | 24 |
| Goodwill | <u>2,620</u> |
| | <u>4,742</u> |
| | <u>\$4,980</u> |

| | |
|--------------------------|----------------|
| Working Capital | |
| — Increase in period | 3,265 |
| — Amount start of period | <u>2,064</u> |
| — Amount end of period | <u>\$5,329</u> |

To our Shareholders

The acquisitions completed at the beginning of last year have helped build your company into one of Canada's largest furniture manufacturers. This report for the year ended December 28, 1974, includes for the full year the sales and earnings of the furniture operations acquired from Strathearn House Group Limited and Standard Upholstery Company. The results of the 60-percent interest acquired in Thompson-Heyland Limited have been included for eight months.

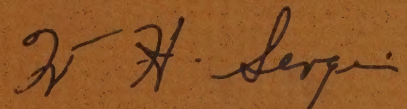
Sales for 1974 amounted to \$35,811,000 compared to \$9,133,000 for 1973. Approximately 85 percent of the increase is attributable to the acquisitions. Net earnings were \$902,000 as against \$469,000 in the twelve months of 1973. After allowing for the greater number of shares outstanding, earnings per common share were 58 cents in 1974 compared with 71 cents (restated) in the previous year.

The Braemore Group is now an integrated manufacturer offering a wide selection of upholstered furniture, wood furniture, stereo and TV cabinets, and accessories such as lighting products, wall hangings and novelty furniture. These are marketed through leading department stores, specialty furniture chains, independent retailers, and home entertainment equipment manufacturers. The company's products carry such well-known trade names as House of Braemore, Troister, Standard, Hespeler, Emanuel and Singer Lighting.

While satisfactory levels of sales and earnings were achieved for upholstered furniture, wood furniture operations experienced some difficulties. The major task was to integrate the production lines of the five case goods plants. The combined effect of reduced demand for TV and stereo cabinets and high interest costs adversely affected profits for the whole year. A build-up in dealer inventories, producing a postponement of deliveries of furniture late in the year, resulted in profits being less than anticipated in the fourth quarter for both wood and upholstered products.

Many of the industry-wide problems encountered in recent months are continuing. The prospects for the year depend upon consumer buying intentions and a reduction of dealer inventories. Any improvement in these areas will have a direct impact on our business.

On behalf of the Board I extend thanks to our management and staff, our retailers and their customers for the support which we will continue to endeavour to earn.



Chairman and Chief Executive Officer

Toronto
April 7, 1975

Consolidated Statement of Earnings

| | | (Unaudited) (Note 2) | |
|---|--|--|---|
| | Twelve Months to December 28, 1974 (\$000) | Twelve Months to December 29, 1973 (\$000) Restated (note 3) | Six Months to December 29, 1973 (\$000) Restated (note 3) |
| SALES | \$35,811 | \$ 9,133 | \$ 4,428 |
| Earnings from operations before the following charges | 2,831 | 1,062 | 369 |
| Depreciation and amortization | 299 | 118 | 43 |
| Interest on long-term debt | 309 | — | — |
| Interest on current debt | 681 | 69 | 39 |
| EARNINGS BEFORE INCOME TAXES | 1,542 | 875 | 287 |
| Income taxes (note 1e) | 648 | 406 | 100 |
| | 894 | 469 | 187 |
| Minority interest in subsidiary's loss | 8 | — | — |
| NET EARNINGS FOR THE YEAR | \$ 902 | \$ 469 | \$ 187 |
| EARNINGS PER SHARE (note 8) | \$0.58 | \$0.71 | \$0.28 |

Consolidated Statement of Retained Earnings

| | | | |
|--|----------|----------|----------|
| Balance, beginning of year | | | |
| As previously reported | \$ 1,886 | \$ 1,484 | \$ 1,766 |
| Prior period adjustment (note 3) | (97) | — | — |
| As restated | 1,789 | 1,484 | 1,766 |
| Net earnings | 902 | 469 | 187 |
| | 2,691 | 1,953 | 1,953 |
| Dividends paid | — | 164 | 164 |
| Balance, end of year | \$ 2,691 | \$ 1,789 | \$ 1,789 |

Consolidated Statement of Changes in Financial Position

| | Twelve Months to December 28, 1974 (\$000) | (Unaudited) (Note 2) Twelve Months to December 29, 1973 (\$000) Restated (note 3) | Six Months to December 29, 1973 (\$000) Restated (note 3) |
|--|--|---|---|
| WORKING CAPITAL PROVIDED BY: | | | |
| Net earnings before minority interest | \$ 894 | \$ 469 | \$ 187 |
| Charges not requiring the current outlay of working capital | | | |
| — depreciation and amortization | 299 | 118 | 43 |
| — deferred income taxes | 425 | 16 | 6 |
| Funds from operations | 1,618 | 603 | 236 |
| Advances from parent — Strathearn House Group Limited | 1,500 | — | — |
| Issue of common shares for acquisitions (notes 4a and 4b) | 5,171 | — | — |
| Issue of promissory notes for acquisitions (notes 4b and 4c) | 1,812 | — | — |
| Working capital acquired on acquisitions (note 4e) | 2,906 | — | — |
| Finance company notes | 48 | — | — |
| Stock options exercised | — | 31 | 15 |
| | <u>13,055</u> | <u>634</u> | <u>251</u> |
| WORKING CAPITAL USED FOR: | | | |
| Acquisitions (note 4d) | 7,784 | — | — |
| Purchase of fixed assets (net) | 811 | 123 | 44 |
| Decrease in long-term debt | 30 | — | — |
| Dividends paid | — | 164 | 164 |
| | <u>8,625</u> | <u>287</u> | <u>208</u> |
| INCREASE IN WORKING CAPITAL | 4,430 | 347 | 43 |
| WORKING CAPITAL, BEGINNING OF YEAR | 1,968 | 1,621 | 1,925 |
| WORKING CAPITAL, END OF YEAR | \$ 6,398 | \$ 1,968 | \$ 1,968 |
| COMPONENTS OF INCREASE IN WORKING CAPITAL | | | |
| Increases (decreases) in current assets | | | |
| Accounts receivable | \$ 4,070 | \$ 391 | \$ 331 |
| Income taxes refundable | 317 | — | — |
| Inventories | 8,196 | 577 | (33) |
| Prepaid expenses | 123 | (36) | (37) |
| | <u>12,706</u> | <u>932</u> | <u>261</u> |
| Decreases (increases) in current liabilities | | | |
| Bank indebtedness | (2,808) | (620) | (565) |
| Bankers' acceptances | (3,500) | — | — |
| Accounts payable | (1,959) | (83) | 71 |
| Income taxes payable | 95 | 48 | 276 |
| Due to parent | (62) | — | — |
| Current portion of long-term debt | (42) | 70 | — |
| | <u>(8,276)</u> | <u>(585)</u> | <u>(218)</u> |
| INCREASE IN WORKING CAPITAL | \$ 4,430 | \$ 347 | \$ 43 |

The accompanying notes form an integral part of the financial statements.

Consolidated Balance Sheet

as at December 28, 1974

| Assets | 1974 (\$000) | 1973 (\$000) Restated (note 3) |
|---|-----------------|---|
| CURRENT | | |
| Accounts receivable | \$ 6,207 | \$ 2,137 |
| Income taxes refundable | 317 | — |
| Inventories (note 1b) | 10,205 | 2,009 |
| Prepaid expenses | 153 | 30 |
| | <u>16,882</u> | <u>4,176</u> |
| FIXED | | |
| Land | 224 | 1 |
| Buildings | 1,578 | 314 |
| Equipment and leasehold improvements | <u>5,420</u> | <u>682</u> |
| Total, at cost | 7,222 | 997 |
| Accumulated depreciation (note 1c) | <u>4,049</u> | <u>488</u> |
| | <u>3,173</u> | <u>509</u> |
| OTHER | | |
| Deferred charges, at cost less amortization | 16 | — |
| Deferred income taxes (note 1e) | 43 | — |
| Goodwill (note 1d) | 3,342 | 637 |
| Incorporation expense | <u>2</u> | <u>2</u> |
| | <u>3,403</u> | <u>639</u> |
| | <u>\$23,458</u> | <u>\$ 5,324</u> |

Auditors' Report

To the Shareholders,
House of Braemore Furniture Limited

We have examined the consolidated balance sheet of House of Braemore Furniture Limited and its subsidiaries as at December 28, 1974, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements

present fairly the financial position of the companies as at December 28, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding period.

The comparative figures included herein are based upon financial statements which were reported on by other auditors.

Toronto, Canada
February 22, 1975

Wm. EISENBERG & CO.
Chartered Accountants

| Liabilities | 1974 (\$000) | 1973 (\$000) |
|--|-----------------|----------------------|
| | | Restated (note 3) |
| CURRENT | | |
| Bank indebtedness (note 5) | \$ 4,243 | \$ 1,435 |
| Bankers' acceptances (note 5) | 3,500 | — |
| Accounts payable and accrued charges | 2,637 | 678 |
| Income taxes payable | — | 95 |
| Due to parent — Strathearn House Group Limited | 62 | — |
| Current portion of long-term debt (note 6) | 42 | — |
| | <u>10,484</u> | <u>2,208</u> |
| LONG-TERM DEBT (note 6) | <u>3,488</u> | <u>—</u> |
| DEFERRED INCOME TAXES (note 1e) | <u>—</u> | <u>6</u> |
| MINORITY INTEREST (note 4c) | <u>303</u> | <u>—</u> |
| Shareholders' Equity | | |
| SHARE CAPITAL (note 7) | 6,492 | 1,321 |
| RETAINED EARNINGS | 2,691 | 1,789 |
| | <u>9,183</u> | <u>3,110</u> |
| | <u>\$23,458</u> | <u>\$ 5,324</u> |

ON BEHALF OF THE BOARD

W. H. Singer, Director

W. Posluns, Director

The accompanying notes form an integral part of the financial statements.

Notes to Consolidated Financial Statements

AS AT DECEMBER 28, 1974

1. Accounting Policies

a. Basis of consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

Wholly-owned

The Hespeler Furniture Company Limited
(including its division, American Frame)
Singer Lighting Co. Ltd.
Troister & Company Limited
Emanuel Products Limited
Roti Wood Products (Fergus) Limited
COSF Products Limited
(including its division, Standard Upholstery Company)
Willison Wood Products Company Limited

Partially-owned

Thompson-Heyland Limited (60% owned)

All significant inter-company loans and transactions have been eliminated on consolidation.

Acquisitions during the year (note 4) have been accounted for by the purchase method whereby assets acquired and liabilities assumed are recorded at their cost to the purchaser. Results of operations of subsidiaries acquired (note 4) have been included from the effective dates of acquisition.

b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

| | 1974 (\$,000) | 1973 (\$,000) |
|------------------------|------------------|------------------|
| Raw materials | \$ 5,594 | \$ 1,395 |
| Work-in-progress | 1,753 | 241 |
| Finished goods | 2,858 | 373 |
| | <u>\$10,205</u> | <u>\$ 2,009</u> |

c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

| | |
|--|----------|
| Buildings | 2½% |
| Equipment and leasehold improvements | 10%-33⅓% |
| Automotive | 25% |

d. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition (note 4). Pursuant to a recommendation of The Canadian Institute of Chartered Accountants, goodwill acquired subsequent to April 1, 1974 will be amortized to earnings by the straight-line method over the estimated life of such goodwill for a period not exceeding 40 years. (1974 amortization — \$1,000; 1973 — Nil). It is not the present intention of the company to amortize the goodwill acquired prior to this date.

e. Deferred income taxes

| | (\$,000) |
|---|----------------|
| (i) Income taxes provided in respect of timing differences between accounting and taxable income | \$176 |
| (ii) Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management, these reductions are virtually certain to be realized | (219) |
| | <u>(\$ 43)</u> |

2. Comparative Figures

The company changed its year end from June 30th to the last Saturday in December, commencing in 1973. The audited consolidated financial statements for the six months ended December 29, 1973, as restated (note 3) and the unaudited consolidated statements of earnings, retained earnings and changes in financial position for the twelve months ended December 29, 1973, as restated (note 3) are shown for comparative purposes. These comparative figures do not include the results of operations of the companies acquired during the current year (note 4).

3. Prior Period Adjustment

The comparative figures for the six month period ended December 29, 1973 have been restated to give effect to the results of a review of the computation of the inventory as at the end of that period. The effect of the adjustment has been to decrease 1973 earnings by \$97,000, net of income taxes.

4. Acquisitions

- a. Effective December 31, 1973, the company acquired from Strathearn House Group Limited all the outstanding capital stock of the following home products manufacturing companies:

Singer Lighting Co. Ltd.
Troister & Company Limited
Emanuel Products Limited
COSF Products Limited
Roti Wood Products (Fergus) Limited

The consideration amounting to \$4,476,000, consisted of 657,900 common shares issued for \$3,921,000 and a balance of \$555,000 due to Strathearn House Group Limited which has since been fully paid.

- b. Effective December 31, 1973, COSF Products Limited (notes 1a and 4a) purchased the net assets of Standard Upholstery Company (including all the outstanding shares of Willison Wood Products Company Limited) for \$2,842,000. The acquisition was financed by the issue of 250,000 House of Braemore Furniture Limited common shares for \$1,250,000; the issue of \$1,500,000 in promissory notes due in 1979 at prime plus 1% per annum, with warrants attached to purchase 75,000 shares (note 7b); the issue of a non-interest bearing promissory note due in 1977 in the amount of \$83,000 and \$9,000 in cash.
- c. Effective May 1, 1974, the company acquired 60% of the outstanding common shares and 53% of the outstanding preference shares of Thompson-Heyland Limited, a manufacturer of wood furniture components. Consideration consisted of \$237,000 in cash and \$229,000 in 8½% promissory notes due in 1981, aggregating \$466,000.
- d. A summary of the acquisitions is as follows:

| | Note a (\$,000) | Note b (\$,000) | Note c (\$,000) | Totals (\$,000) |
|---|--------------------|--------------------|--------------------|--------------------|
| Tangible assets of companies acquired at book values | \$ 8,604 | \$ 2,067 | \$ 1,266 | \$11,937 |
| Liabilities assumed | 5,479 | 553 | 740 | 6,772 |
| | 3,125 | 1,514 | 526 | 5,165 |
| Adjustments to fair values of tangible assets | — | — | 224 | 224 |
| | 3,125 | 1,514 | 750 | 5,389 |
| Minority interest | — | — | 311 | 311 |
| Net tangible assets acquired at fair values (note 4e) | 3,125 | 1,514 | 439 | 5,078 |
| Goodwill | 1,351 | 1,328 | 27 | 2,706 |
| Consideration | \$ 4,476 | \$ 2,842 | \$ 466 | \$ 7,784 |

- e. Net assets acquired represented by:

| | (\$,000) |
|----------------------------------|----------------|
| Working capital | \$2,906 |
| Fixed assets | 2,142 |
| Deferred taxes recoverable | 474 |
| Other assets | 25 |
| Long-term liabilities | (158) |
| Minority interest | (311) |
| | <u>\$5,078</u> |

5. Bank Indebtedness

The bank indebtedness is secured by a pledge of book debts and inventories.

Notes to Consolidated Financial Statements

AS AT DECEMBER 28, 1974

6. Long-Term Debt

| | |
|--|----------------|
| Promissory notes: | (\$,000) |
| Prime plus $\frac{3}{4}\%$, due June 30, 1976 to parent | |
| — Strathearn House Group Limited | \$1,500 |
| Prime plus 1%, due April 1, 1979 (notes 4b and 7b) | |
| — Directors and officers | 1,225 |
| — Other | 275 |
| Non-interest bearing, due 1977 (note 4b) | 83 |
| 8 $\frac{1}{2}\%$, due August 28, 1981 (note 4c) | 229 |
| 10.7% Industrial Development Bank loan, due April 22, 1979, secured by mortgages | 156 |
| 10% Mortgage payable, due October 15, 1977 | 14 |
| Finance company notes, secured by chattel mortgages | 48 |
| | <u>3,530</u> |
| Due within one year | 42 |
| | <u>\$3,488</u> |

7. Share Capital

- a. By articles of amendment dated April 23, 1974, the authorized capital was increased to 3,000,000 common shares without par value from the 1,500,000 previously authorized. The analysis of common shares issued during the year is as follows:

| | Issued and fully paid | |
|---|-----------------------|------------------------|
| | Number | Consideration (\$,000) |
| Balance, December 29, 1973 | 657,900 | \$1,321 |
| Issued during the year to finance acquisitions: | | |
| — Note 4a — @ \$5.96 | 657,900 | 3,921 |
| — Note 4b — @ \$5.00 | 250,000 | 1,250 |
| Balance, December 28, 1974 | <u>1,565,800</u> | <u>\$6,492</u> |

- b. The promissory notes due April 1, 1979, aggregating \$1,500,000 (note 4b), have subscription warrants attached entitling the holders to subscribe for a total of 75,000 common shares from treasury at \$5.00 per share. These warrants may be exercised at any time prior to the maturity date of the notes and expire on that date.

8. Earnings Per Share

Earnings per share have been calculated on the weighted monthly average of common shares outstanding during the period. Fully diluted earnings per common share after giving effect to the exercise of the warrants attached to the promissory notes (note 7b) and after imputing interest at a rate equivalent to that payable on the notes, net of income taxes, would be \$0.57 for the year.

9. Lease Commitments

Aggregate minimum rentals of properties are as follows:

| | (\$,000) |
|------------------------------|----------------|
| Year ended December 27, 1975 | \$ 596 |
| The next four years | 1,933 |
| 1980 to 1997 | <u>1,895</u> |
| | <u>\$4,424</u> |

10. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company during the current year amounted to \$554,183.

11. Pension Benefits

The corporation is obligated under an agreement with a retired director and senior officer for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

Directors

M. FAITH
Vice-President, Emanuel Products Division

E. FINE
Vice-President, Braemore Furniture Division

S. GOSSIN
Vice-President, Emanuel Products Division

M. H. HANDELMAN
Vice-Chairman of House of Braemore
Furniture Limited

J. F. KAY
President of Dylex Limited

I. A. POSLUNS
Executive Vice-President of Dylex Limited

J. I. POSLUNS
Executive Vice-President of Dylex Limited

*W. POSLUNS
Secretary and Treasurer of Dylex Limited

*S. M. SIGEL
Partner, Messrs. Stitt, Baker & McKenzie,
Solicitors

W. H. SINGER
Chairman and Chief Executive Officer of
House of Braemore Furniture Limited
President and Chief Executive Officer of
Strathearn House Group Limited

P. TANE
Vice-President, Standard Upholstery Division

H. VOGEL
Vice-President, Singer Lighting Division

H. K. WEINER
President of House of Braemore Furniture
Limited

*A. H. ZALDIN, Q.C.
Senior Partner, Messrs. Zaldin and Fine, Solicitors

* *Member of the audit committee*

Officers

W. H. SINGER
Chairman of the Board and Chief Executive Officer

M. H. HANDELMAN
Vice-Chairman of the Board

H. K. WEINER
President

W. POSLUNS
Secretary and Treasurer

M. FAITH
Vice-President

E. FINE
Vice-President

S. GOSSIN
Vice-President

J. F. KAY
Vice-President

J. MORGAN
Vice-President

I. A. POSLUNS
Vice-President

J. I. POSLUNS
Vice-President

P. TANE
Vice-President

H. VOGEL
Vice-President

Transfer Agent and Registrar
CROWN TRUST COMPANY

Auditors

Wm. EISENBERG & CO., Chartered Accountants

Bankers

BANK OF MONTREAL

Listed On

TORONTO STOCK EXCHANGE

Executive Offices

4646 Dufferin Street, Downsview, Ont., Canada M3H 5S

